AR16

IPSCO
ANNUAL REPORT
1971

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

TOP LEFT

Refined steel is poured from the electric furnace into a refractory lined ladle. Production of steel at IPSCO has increased each year over the last five years, from 125,000 tons in 1967 to 228,000 tons in 1971. Capacity at present is 300,000 tons per year and this can be increased to 450,000 tons through the addition of a fourth electric furnace.

TOP CENTER

Pipeline construction activity is expected to remain at a high level during the current year. As new areas are opened up in the development of petroleum resources, a network of gathering and transmission lines are required to transport the product to refining centers. Natural gas gathering, transmission and distribution systems are growing rapidly to meet increased demand for this product.

TOP RIGHT

The 4-Hi rolling mill receives slabs rolled on the 2-Hi rolling mill and completes the rolling process to finished coils of steel. Temperatures are controlled during the rolling process in refractory lined ovens on either side of the 4-Hi mill. This method of rolling steel results in the production of a very fine grain structure, an important characteristic in achieving ductility and strength in the finished product.

DESCRIPTION OF FRONT COVER PHOTOGRAPHS

BOTTOM LEFT

Drilling for oil and gas is a common sight throughout Western Canada. Recent discoveries in the Canadian Arctic have greatly expanded the area of activity and the movement of these new reserves to market will require a new network of pipelines. IPSCO casing is used in both oil and gas wells throughout Canada and in the United States.

BOTTOM CENTER

Last year a 100 ton capacity teeming crane was installed at IPSCO, to permit the pouring of larger heats of steel into ingot moulds. The development of higher strength steels has resulted in a greater useage of alloying materials in the production of steel. After cooling, the mould is stripped from the steel ingot, and the ingot is transferred to the soaking pits for re-heating prior to rolling.

BOTTOM RIGHT

Last year IPSCO developed the highest grade of large diameter pipe in the world. Because of the process used, the pipe has superior roundness and straightness and can be produced in lengths up to 80 feet. These are important qualities which provide economies in pipeline construction. Research is continuing to improve further in providing high strength line pipe to meet Arctic construction and operating conditions.

INTERPROVINCIAL
STEEL
AND
PIPE
CORPORATION
LTD.

DIRECTORS

D. R. ANNETT, Toronto . . . . . President, Annett Partners Limited
D. S. DOMBOWSKY, Regina . . . . . Deputy Provincial Treasurer, Govt. of Sask.
C. S. EDY, Regina . . . . . Division Manager, United Investment Services Ltd.
W. M. ELLIOTT, Q.C., Regina . . . . . Partner, MacPherson, Leslie & Tyerman
J. V. KING, Regina . . . . . President, Continental Construction Ltd.
R. B. LOVE, Calgary . . . . . Partner, Macleod Dixon
HUGH A. MARTIN, Vancouver . . . . . President, Western Construction & Engineering Research Ltd.
C. S. McLEOD, Regina . . . . . Executive Vice-President, Western Tractor Ltd.
A. HOADLEY MITCHELL, Edmonton . . . . . President, Mitchell & Associates Ltd.
G. P. OSLER, Toronto . . . . . Chairman of the Board of UNAS Investments Ltd.
F. E. SHAW, Sarnia . . . . . Interprovincial Steel and Pipe Corporation Ltd.
J. N. TURVEY, Regina . . . . . Interprovincial Steel and Pipe Corporation Ltd.

EXECUTIVE OFFICERS

F. E. SHAW . . . . . Chairman of the Board
J. N. TURVEY . . . . . President
J. D. MACLENNAN . . . . . Vice-President - Finance
L. G. WELCH . . . . . Vice-President - Sales
B. E. YEO . . . . . Secretary
W. H. BOULDING . . . . . Treasurer

REGISTRAR AND TRANSFER AGENTS

Common Shares
Preference Shares
First Mortgage Sinking Fund Bonds (Series A) . . . . . MONTREAL TRUST COMPANY
First Mortgage Sinking Fund Bonds (Series B)
First Mortgage Sinking Fund Bonds (Series C)

Convertible Debentures . . . . . CANADA TRUST COMPANY

OFFICES

Head Office and Plant Location: P.O. Box 1670, Regina, Canada

Sales Offices:

Regina — Head Office
Vancouver — 1455 West Georgia St.
Calgary — 2710 London House
Winnipeg — 870 Bradford St.
Edmonton — 702 Centennial Building
Toronto — Ste. 828, 67 Yonge St.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

15TH ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31, 1971

HIGHLIGHTS OF THE YEAR (IN THOUSANDS EXCEPT AS INDICATED*)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Sales	$30,075	$26,672	$20,483	$15,515	$14,658	$17,329	$17,969	$13,304	$12,948	$10,993
Profit before Depreciation & Deferred Income Tax	3,305	4,570	2,038	1,332	2,372	4,179	3,555	2,434	2,796	506
Provision for Depreciation	1,197	1,095	990	917	770	753	751	633	586	—
Net Profit before Deferred Income Tax	2,108	3,475	1,048	415	1,601	3,426	2,803	1,801	2,210	506
Deferred Income Tax	1,088	1,712	514	—	—	—	—	—	—	—
Net Profit after Deferred Income Tax	1,020	1,763	534	—	—	—	—	—	—	—
Net Profit per Share — Before Deferred Income Tax*	$ .67	$ 1.16	$ .31	$ .09	$ .51	$ 1.17	$ 1.02	$ .67	$ .87	$ .20
— After Deferred Income Tax*	.30	.56	.13	—	—	—	—	—	—	—
Number of Common Shares	2,914	2,859	2,859	2,849	2,847	2,833	2,740	2,702	2,555	2,552
Number of Shareholders*	3,782	3,481	3,231	3,400	3,636	3,248	2,642	2,274	2,053	2,040
Working Capital	$ 7,556	$ 7,272	$ 5,752	$ 7,360	$ 8,073	$ 7,236	$ 4,892	$ 1,045	$ 718	$ (718)
Long-term Debt	6,891	7,729	7,834	10,884	9,917	10,495	12,031	11,150	10,105	11,005
Fixed Assets at Cost	35,033	33,269	30,932	30,484	27,759	27,050	24,292	23,835	18,934	19,389
Accumulated Depreciation	7,210	6,157	5,235	4,395	3,643	2,949	2,370	1,729	1,147	661
Fixed Assets (net)	27,823	27,112	25,697	26,089	24,116	24,101	21,922	22,106	17,787	18,728
Shareholders' Equity	25,175	24,429	23,102	22,657	22,385	20,892	15,031	12,153	10,919	8,705
Per Preference Share*	$ 21.30	$ 21.30	$ 21.30	$ 21.30	$ 21.30	$ 21.30	—	—	—	—
Per Common Share*	$ 7.74	$ 7.61	$ 7.15	$ 7.02	$ 6.93	$ 6.44	$ 5.49	$ 4.50	$ 4.27	$ 3.41

DIRECTORS REPORT

TO THE SHAREHOLDERS

The Board of Directors submits herewith the Annual Report of your company for the year ended August 31, 1971, together with the financial statements and the report of your auditors.

The demand for IPSCO products remained strong, particularly in the last half of the year under review. For the third successive year production and sales volumes reached record high levels, reflecting the continuing expansion to production facilities and market growth. Sales volume rose to a record high of $30,074,896 last year. Net earnings before taxes amounted to $2,107,855.

The reduction in net earnings as compared to 1970 resulted from increases in most elements of manufacturing cost. In addition, IPSCO last year carried out a development program which resulted in the commercial production of the highest grade of pipe ever produced. The success in meeting this new specification on regular production last year was a major factor in obtaining a 40,000 ton order which is currently being produced.

The benefits of this development program are apparent in the first quarter earnings of the current fiscal year. For the three-month period ending November 30, 1971 sales volume amounted to $11,247,848. Net earnings before income tax for the first quarter amounted to $1,478,226. This is the highest first quarter sales and earnings ever recorded in IPSCO's history.

Expansion to steel capacity, completed during the year under review, will permit a further increase in sales volume this year. The results achieved in the first three months, with earnings in this period equal to 70% of total earnings last year, are most encouraging. There is every indication that 1972 will be a record pipeline construction year. Orders presently on hand, together with an improvement in costs due to higher levels of production, gives every indication that IPSCO should experience the highest level of production, sales and earnings in its history this year.

SALES

Total dollar sales volume for the fiscal year rose to a record high of $30,074,896, an increase of 13% over the previous record of $26,672,426 established in fiscal year 1970. Tonnage sales showed a similar increase to 148,729 tons from 134,424 tons in 1970, representing an increase of 11%. Increased ingot and soaking pit capacities, completed during the year, permitted the expansion to sales volume. Dollar and tonnage sales trends over the last ten years are as follows:

Year Ended August 31	Total Sales Volume Tons	Dollars	Percentage Change In Dollar Volume Over Previous Year
1962	73,061	$10,993,000	—
1963	70,149	12,948,000	+ 18
1964	77,566	13,304,000	+ 3
1965	107,847	17,969,000	+ 35
1966	93,520	17,329,000	— 4
1967	87,096	14,658,000	— 16
1968	95,182	15,515,000	+ 6
1969	122,397	20,483,000	+ 32
1970	134,434	26,672,000	+ 30
1971	148,729	30,075,000	+ 13

Sales of tubular products for the year ended August 31, 1971 increased by 15% in tonnage volume and 16% in dollar volume over the previous year. Sales of API line pipe in the 2" to 16" diameter size range decreased by 14% in both tonnage and dollar volume as compared to 1970, primarily because of low demand for these products in the first half of the year under review. Market conditions in the second half improved significantly and continued through the first quarter of the current fiscal year.

API large diameter spiral weld pipe sales increased 65% in tonnage volume and 58% in dollar volume in 1971 as compared to 1970. The trend to higher grades continued during the year and IPSCO successfully developed and introduced API X70, the first pipe of this grade to go into service anywhere in the world. Large diameter pipe sales were the major product group contributing to the record sales volume in 1971. With additional steel capacity available last year, both spiral pipe mills were operated at close to capacity levels.

Steel sales, including sheet, plate and structurals were generally lower last year, due in part to lower market demand and also to the entrance of new suppliers in Western Canada. Increased sales in other product lines, including oil and gas well casing, ASTM and commercial pipe, skelp and coiled sheet assisted in reaching a record level of sales last year.

Both steel and pipe selling prices were increased moderately last year, to compensate for earlier increases in most areas of manufacturing cost. During the current year, API line pipe prices in the size range from 2" to 16" diameter were increased by an average of 3.5% on October 12, 1971. Due to orders on hand, this increase was not reflected in sales during the first quarter of the current fiscal year but ERW pipe prices should improve during the balance of the year.

Prospects are most encouraging for sales this year. Orders currently on hand will require a capacity level of operations in major product groups for the balance of the fiscal year.

Large diameter pipeline construction represents a growing market for IPSCO products. The development of higher grades of pipe permits the use of thinner walls with resultant savings in freight, field handling and welding costs. The ability to supply 80 foot lengths in a diameter range from 16 to 80 inches are important features of the spiral weld process.

Large diameter water transmission line pipe represents a growing market for IPSCO spiral weld pipe. This product has been supplied across Canada for both rural and urban water transmission projects. The trend, using steel pipe, is to larger diameters and IPSCO has supplied 60" diameter pipe for water transmission pipelines.

The trend to large diameter pipelines is continuing, concurrent with design studies based on higher steel grades. IPSCO's participation in this development work, as evidenced by the introduction of X70 grade pipe last year, should ensure a significant participation in these markets in future years. The growing energy requirements in both Canada and the United States will require a continuation of the looping of existing pipeline systems to transport Western Canadian oil and gas to these markets. In addition to the growth potential in existing systems, new lines will be required to transport Arctic oil and gas to market.

PRODUCTION

Increased production capacity in the melt shop, completed during the year, resulted in record production levels last year. Ingot production, at 228,332 tons, increased by 27% over the level in 1970. Installation of a 100-ton capacity teeming crane in May, 1971 increased melt shop capacity to a level of 280,000 tons per annum. Modifications to auxiliary facilities, including scrap charging, electrical systems, mechanical lifting devices for the electrodes and furnace roofs have now been completed. Melt shop capacity for the current year is 300,000 tons per annum and a capacity level of production is forecast.

Production of finished products during the year under review, at 152,007 tons, increased by 19% over the level in 1970. Tubular products accounted for 135,279 tons, an increase of 26% over 1970. Sheet and plate production, due to reduced demand last year, declined by 16% to 16,728 tons. The largest production increase, due to expanded capacity, was in API large diameter pipe which increased 62% over 1970.

As a result of increased steelmaking capacity, production records were established in all major operating departments last year, continuing the trend established over the past four years. Production efficiency in the melt shop was affected by modifications and additions to auxiliary equipment which were required to bring the third furnace up to a capacity level of operations. A major reline to furnace bottoms and soaking pits, together with the construction of two new pits, also reduced available production time last year. The benefits of these programs are reflected in operations for the current year, with ingot production forecast at 300,000 tons for the full year.

Research concerning construction and operating conditions in the Canadian Arctic continued during the year under review. IPSCO 48" diameter pipe has been used in two locations in the Arctic to evaluate the pipeline design and operating procedures best suited to transport oil and gas from these areas to North American markets.

Last year IPSCO produced 228,332 tons of steel and melt shop capacity for the current year is 300,000 tons. The control available using electric furnaces is an important factor in the development of higher steel grades. With the trend to higher grades it was necessary to develop new refining and teeming procedures in the melt shop.

The continuing trend to higher product specifications resulted in increased costs last year. This is particularly true for the production of large diameter pipe which accounts for an increasing share of overall production each year. IPSCO's policy in this regard is to take the initiative in the development of higher grade steels, thereby maintaining and increasing its participation in the market for high pressure line pipe. This program can only be carried out by utilizing production equipment for test runs on new alloys and through experimental procedures on the rolling mills. Although this results in higher production costs, the results of these tests, when incorporated into commercial production runs last year were very successful. IPSCO produces the highest grade of API pipe presently available anywhere in the world.

In addition to the costs incurred in development programs on higher grades of steel, increases in most categories of manufacturing cost including wages, raw materials, supplies and services resulted in higher unit costs on all product groups last year. These increases were offset, where possible, by increased production volumes and efficiencies. Adjustments in selling prices, which tend to lag behind manufacturing cost increases, will be more fully reflected in the current year's operations.

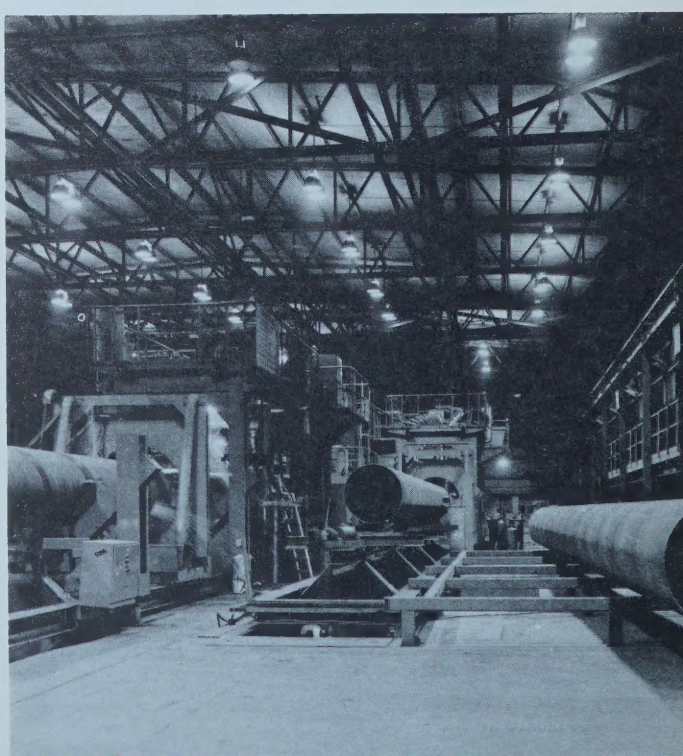
The expansion to production facilities over the last two years has resulted in a significant increase in total employees, from an average annual level of 700 in 1970 to a current level of 1,100. Although difficult to measure in finite terms, the necessity for "on-the-job" training of operating personnel has had the effect of increasing manufacturing costs during this period.

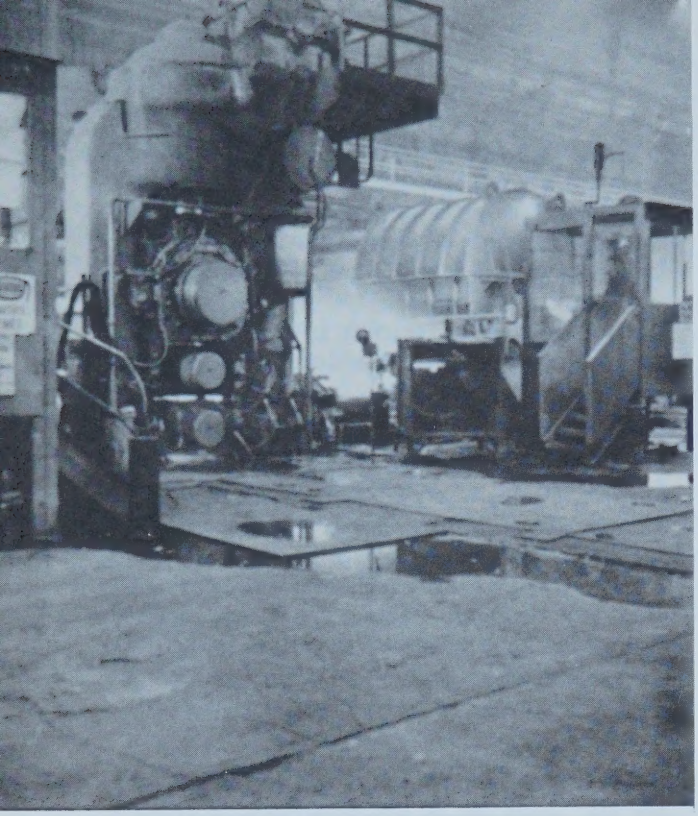
RAW MATERIALS & INVENTORIES

Steel scrap purchases during the year increased by 35% as compared with 1970. Despite this major increase in volume, average cost increased by only 1.7% in the same period. At the same time, freight rates rose by 10% and the quality of scrap was significantly improved to meet more stringent requirements imposed by higher quality steels. These higher grades of steel have also contributed to major increases in the consumption of alloys, fluxes, electrodes, moulds, oxygen and refractories. The increased volumes have contributed to improved contracts with suppliers which will be reflected in current year's purchase costs.

Inventory turnover has remained at close to three times. The increased volume of production planned for

IPSCO's two spiral pipe mills were operated at close to capacity levels last year to meet growing demands for high pressure oil and gas transmission pipe. The development of X-70 Grade pipe last year was an important factor in maintaining a high level of production and sales for this product.





The rolling mills were operated at 46% of capacity last year, with 256,848 tons of steel processed. The 4-Hi rolling mill in the above photo provides close temperature control during the entire rolling process which results in the consisient production of IPSCO Fine Grain steel.

1972 will necessitate higher inventories of raw materials and work-in-process but turnover rate will be held at its present level.

Steel scrap supplies this year should be available in adequate quantities to support a level of 300 - 350 thousand tons per year at prices close to last year. Negotiations are in progress to assure these quantities and a favorable outcome is anticipated.

Meanwhile, plans are being developed to provide adequate raw materials for a level of operation in excess of 500 thousand tons per year. Considerable attention is being given to the establishment of a plant to produce high grade metallized iron pellets suitable for melting in electric furnaces. A number of possible sources of iron ore are under consideration. Two reduction processes are also being evaluated and a joint research program has been initiated with another Canadian steel mill to establish optimum electric furnace practices.

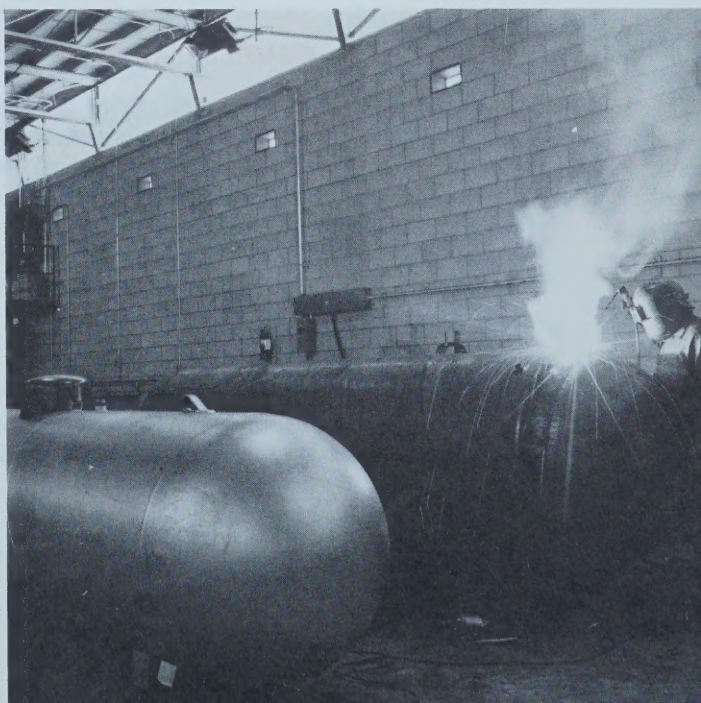
EXPANSION PROGRAM

Last year a total of $1,908,078 was expended on fixed assets, comprised of the following major categories:

Operating Department	Fixed Asset Expenditure
Melt Shop	$ 563,086
Soaking Pits	380,444
Rolling Mills	215,242
General Steel Mill Improvements	221,497
Pipe Mill Buildings	125,081
Yard Improvements (Includes Rail and Roads)	232,296
General Pipe Mill Improvements	170,432
Total Investment in Fixed Assets — 1971	$1,908,078

The major portion of above expenditures are included under Phase I of the federal government Incentive Grant, under which IPSCO will receive a grant equal to 18% of approved capital expenditures. Phase I of this program is largely completed and during the current fiscal year the company will be carrying out Phase II. A progress payment on Phase I of the program was approved during December of 1971.

A new end use for spiral weld pipe was developed by IPSCO last year. Spiral weld shells are now being used in the fabrication of propane tanks. Prior to the introduction of this product, IPSCO obtained the required consents for the use of spiral shells in the production of propane tanks. Other applications in this field include underground storage reservoirs.



In June of 1971 the Company made application to the Department of Regional Economic Expansion for an Incentive Grant on a proposed new expansion program. This expansion, which could commence during the current fiscal year if a favorable decision is reached on the Incentive Grant application, includes the purchase and installation of a fourth electric furnace and the purchase and installation of a third spiral weld pipe mill. Total capital cost is estimated at $4,734,000 and would require approximately one year to complete. The fourth electric furnace would increase steel ingot capacity to ~~450,000~~ tons per annum and the addition of a third spiral pipe mill would increase large diameter pipe capacity to ~~144,000~~ tons per annum. On completion of the program, employment at IPSCO is forecast to increase from the present level of 1,100 to an average of 1,300 employees.

Market forecasts indicate that an increase in large diameter pipe capacity to a level of 144,000 tons per annum could be absorbed, particularly for pipe produced using the spiral weld process. To meet this level of demand it would be necessary to increase ingot capacity to the 450,000 ton level, since the full range of IPSCO products will experience market growth over the short term.

It is anticipated that the application for an Incentive Grant will be processed to the point where a detailed report can be presented to the Board of Directors on the proposed expansion program early in 1972. In the interim, work is proceeding on Phase II of the current program.

RESEARCH & DEVELOPMENT

Last year IPSCO developed a new concept in carrying out research which has proven to be very successful. The research program was channelled directly into the production program and this resulted in the production of the first API Grade X70 pipe for use in a high pressure gas transmission pipeline. Metallurgically the X70 is the result of a long period of experimentation with various alloys.

Initial alloy test runs proved to be too expensive for commercial production and an alternative method was investigated involving a quench and temper process on the finished pipe. Although this method is used in the production of oil and gas well casing, an extensive research program would have been required to attempt to adapt this technique to large diameter pipe, therefore, alternative solutions were sought. Finally, in conjunction with Climax Molybdenum, IPSCO developed a chemistry suitable for high strength pipe which proved satisfactory on a test basis and kept costs within a reasonable limit.

The process was used, with the consent of the customer, directly in a production run of 80 miles of API X65. During this run, another customer expressed interest in this new product and placed an order for 7 miles of X70. Of the combined orders, totalling 87 miles, 98% rated X70 grade or better. Approximately 50% of the total production met grade X75. These grades were produced within rigid customer test specifications on ductility and impact toughness.

Development of this new product required about one year, which can be considered fairly short for a new product of this type. IPSCO is already engaged in further research into X75 and X80 grades, with special reference to Arctic requirements. These new grades offer significant savings for future pipelines. Increased strength permits the use of thinner walls, with resultant savings in freight, field handling and welding costs. These advantages are of particular interest to the several research groups developing engineering and design data on proposed northern pipelines. Performance tests on IPSCO X70 pipe were carried out last year to determine the nature and extent of damage when subjected to pressures sufficient to burst the pipe. These tests, which were performed by Battelle Memorial Institute for one of the groups studying northern lines, confirmed the results of earlier tests at IPSCO. Large diameter pipe manufactured using the spiral weld process provides an important safety factor not available in longitudinally welded pipe. On rupture of the steel, the energy is dispersed along the direction of the spiral weld with the result that the failure in the pipe is confined to a relatively small area. This quality is an important safety factor for utilization in high pressure transmission pipelines.

The development work at IPSCO has attracted wide interest, not only from potential users of X70 and higher grade pipe, but also from pipe producers. Tech-

nical personnel from pipe mills located in Canada, the United States, Japan and several European countries have visited the Regina mills over the last year to study the production and quality control procedures used. It seems apparent that future requirements for large diameter gas transmission pipelines will favor a design based on X70 grade or upwards. The spiral welding process offers economic and product quality advantages that have firmly established this product for high pressure pipeline applications. A very important advantage is represented by the wide range of diameters available, from 16 to 80 inches.

FINANCIAL

Operations for the year resulted in a profit before depreciation and income tax of $3,305,242. After providing for depreciation in the amount of $1,197,387 and deferred income tax of $1,087,500, the net profit for the year amounted to $1,020,355. Income tax will not be currently payable since depreciation in excess of the amounts recorded will be claimed for income tax purposes. The profit before deferred income tax is equivalent to $.67 per common share and the net profit after deferred income tax is equivalent to $.30 per common share. Allowance is made in the above calculations for dividends on the preference shares. The percentage of net profit to sales was 3.4% as compared to 6.6% for the year ended August 31, 1970.

The shareholders' equity amounted to $25,174,911 at August 31, 1971 as compared to $24,429,401 at August 31, 1970. Equity at the year end amounted to $7.74 for each common share, with 2,914,203 common shares issued and $21.30 for each preference share, with 122,666 preference shares issued. On December 4, 1970 a dividend of $.15 per common share outstanding was paid amounting to a total of $432,580. Subsequent to the year end a dividend of $.15 per common share outstanding was paid on November 1, 1971 amounting to a total of $437,961.

Fixed asset additions amounted to $1,908,078 which included the addition of two soaking pits, the installation of a 100-ton overhead crane and the construction of a pipe coating building. These expenditures were financed by a long-term bank loan of $750,000 and working capital of $1,158,078. The ratio of depreciated fixed assets to long-term debt at August 31, 1971 was 4 to 1 providing approximately $4,000 security for each $1,000 in long-term debt. The following summary shows the comparison of depreciated fixed assets to long-term debt for the past ten years.

Year Ending August 31	Depreciated Fixed Assets	Long-term Debt	Ratio
1962	$18,728,154	$11,005,000	1.7 to 1
1963	17,786,798	10,105,000	1.8 to 1
1964	22,105,992	11,150,000	2.0 to 1
1965	21,921,500	12,030,563	1.8 to 1
1966	24,100,844	10,495,062	2.3 to 1
1967	24,115,837	9,916,722	2.4 to 1
1968	26,089,343	10,883,819	2.4 to 1
1969	25,697,547	7,833,840	3.3 to 1
1970	27,112,621	7,728,913	3.5 to 1
1971	27,823,312	6,891,261	4.0 to 1

As at August 31, 1971 the working capital was $7,556,360 as compared with $7,271,693 as at August 31, 1970. Operations of the company plus the long-term bank loan provided funds of $4,055,242. These funds were used to purchase fixed assets of $1,908,078, retirement of long-term debt of $1,282,284, payment of dividends on preference and common shares of $580,213 and increase working capital by $284,667.

Although no normal dividend policy has been established by the Board of Directors, payments have been made as follows:

February 1970	$.10 per common share
December 1970	$.15 per common share
November 1971	$.15 per common share

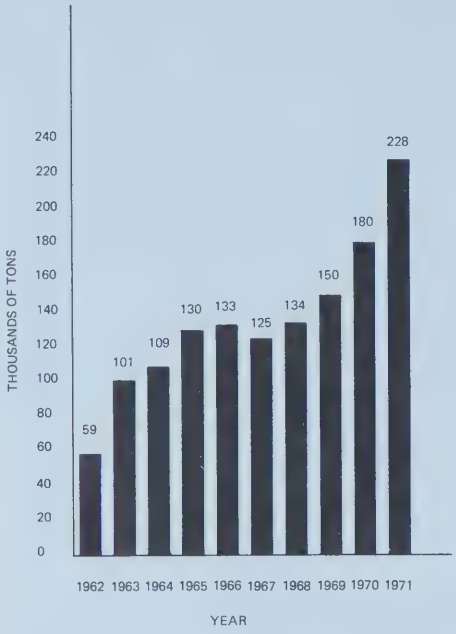
The Board will continue to review this policy taking into account plant expansion, long-term debt repayments, earnings and interest rates.

Respectfully submitted on behalf of the Board of Directors.

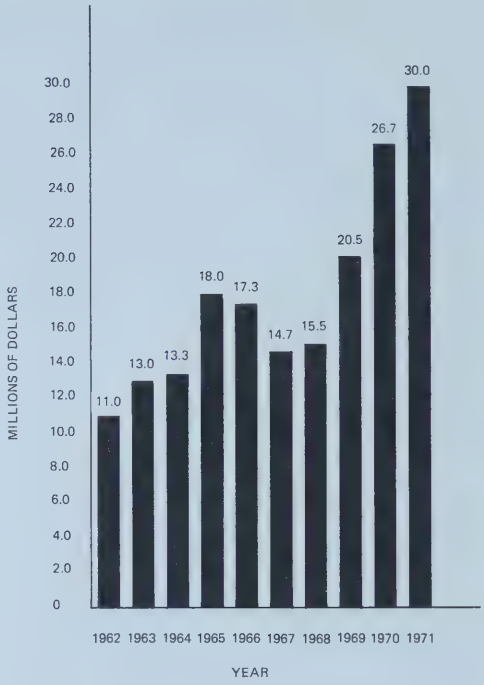
Regina, Canada,
January 7, 1972.

J. N. TURVEY,
President.

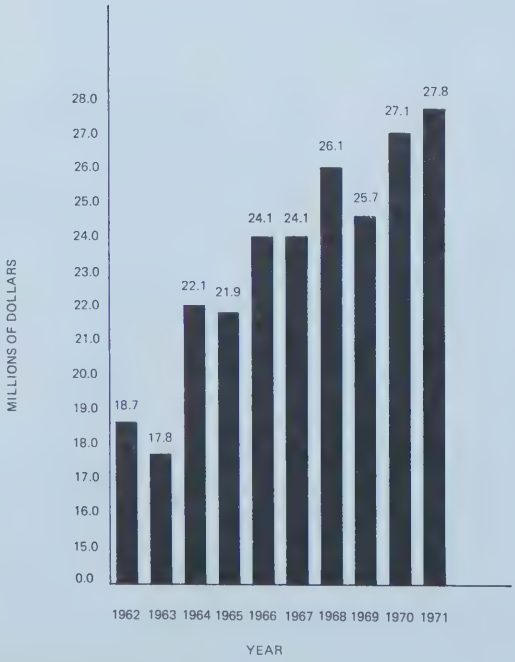
PRODUCTION OF STEEL INGOT
(Thousands of Tons)



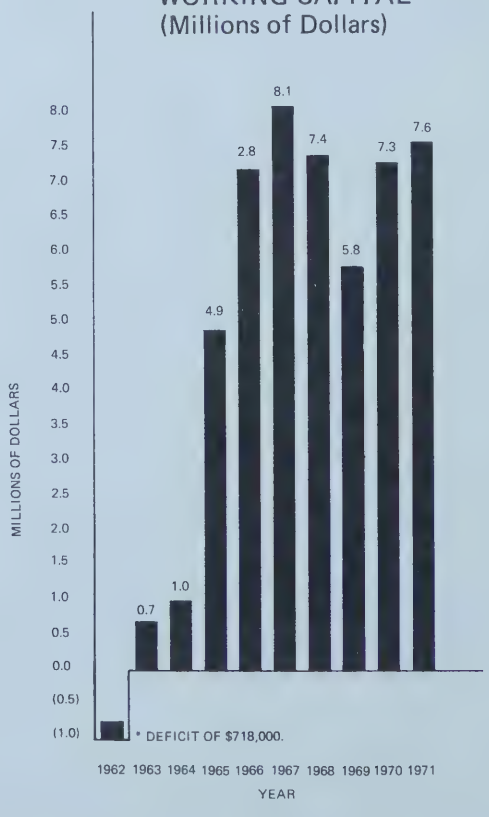
DOLLAR SALES VOLUME
(Millions of Dollars)



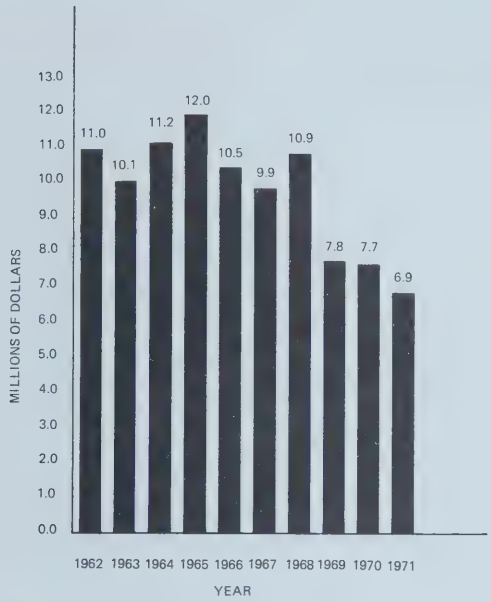
FIXED ASSET VALUE—NET AFTER DEPRECIATION
(Millions of Dollars)



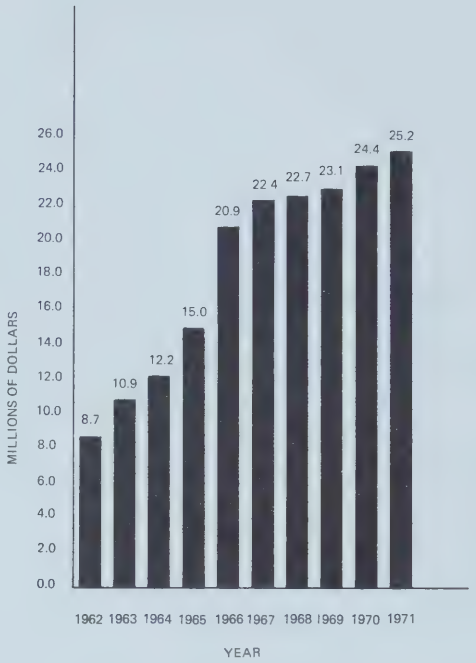
WORKING CAPITAL
(Millions of Dollars)



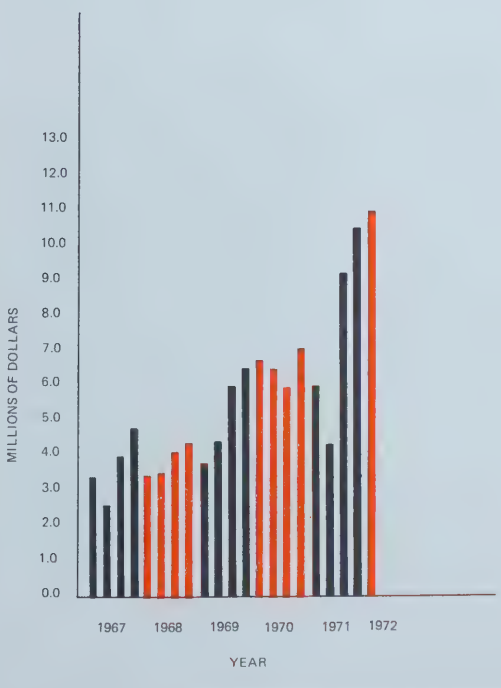
LONG–TERM DEBT
(Millions of Dollars)



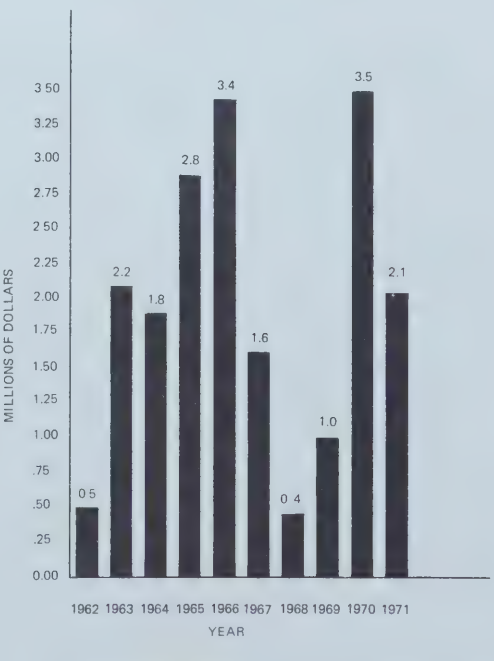
SHAREHOLDERS' EQUITY
(Millions of Dollars)



SALES BY QUARTERS
(Millions of Dollars)



NET PROFIT–BEFORE DEFERRED INCOME TAX
(Millions of Dollars)



INTERPROVINCIAL STEEL

(INCORPORATED UNDER TH

BALANCE SHEET AS

ASSETS

CURRENT ASSETS	1971	1970
Accounts receivable	$ 6,737,039	$ 5,996,585
Inventories valued at the lower of cost and net realizable value		
Finished products	4,578,815	3,393,298
Work in process	1,633,885	1,143,774
Materials and supplies	4,499,329	3,569,460
Prepaid expenses	280,891	263,638
	17,729,959	14,366,755
FIXED ASSETS at cost		
Land (including iron ore property)	367,354	367,354
Pipe plants		
Buildings	1,435,527	1,310,446
Machinery and equipment	8,370,051	7,967,323
Steel plant		
Buildings	2,944,851	2,878,048
Machinery and equipment	21,916,011	20,746,235
	35,033,794	33,269,406
Accumulated depreciation	7,210,482	6,156,785
	27,823,312	27,112,621
	$45,553,271	$41,479,376

AND PIPE CORPORATION LTD.

COMPANIES ACT OF SASKATCHEWAN)

AT AUGUST 31, 1971

LIABILITIES

CURRENT LIABILITIES	1971	1970
Bank indebtedness **Note 1**	$ 3,676,922	$ 2,758,200
Notes payable	1,000,000	.....
Accounts payable and accrued liabilities	3,686,197	2,899,112
Sales taxes payable	586,047	544,810
Current maturity on long-term debt	1,163,100	830,440
Dividend payable on preference shares	61,333	62,500
	10,173,599	7,095,062
LONG-TERM DEBT Note 2	6,891,261	7,728,913
DEFERRED INCOME TAXES Note 3	3,313,500	2,226,000

SHAREHOLDERS' EQUITY

CAPITAL STOCK Note 4

Authorized

125,000 $1.20 cumulative redeemable convertible preference shares of no par value

5,000,000 common shares of no par value

Issued		
122,666 preference shares (1970 — 125,000 shares)	2,612,786	2,662,500
2,914,203 common shares (1970 — 2,858,730 shares)	8,777,049	8,421,967
RETAINED EARNINGS Note 5	13,785,076	13,344,934
	25,174,911	24,429,401
	$45,553,271	$41,479,376

Signed on behalf of the Board:

F. E. SHAW, *Director*

J. N. TURVEY, *Director*

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended August 31, 1971

	1971	1970
SALES	$30,074,896	$26,672,426
EARNINGS BEFORE PROVIDING FOR THE UNDERNOTED EXPENDITURES	4,100,735	5,175,309
Interest on long-term debt	506,017	478,560
Discount on purchase of bonds for sinking fund	27,719	97,800
	478,298	380,760
Other interest	296,595	206,466
Directors' fees	20,600	18,100
Depreciation	1,197,387	1,094,623
	1,992,880	1,699,949
EARNINGS BEFORE INCOME TAXES	2,107,855	3,475,360
Provision for deferred income taxes **Note 3**	1,087,500	1,711,880
NET EARNINGS	1,020,355	1,763,480
(Earnings per common share 1971 $.30; 1970 $.56)		
Retained earnings at beginning of year	13,344,934	12,017,326
Dividends		
Preference shares	(147,633)	(150,000)
Common shares	(432,580)	(285,872)
RETAINED EARNINGS AT END OF YEAR	$13,785,076	$13,344,934

AUDITORS' REPORT TO THE SHAREHOLDERS

To The Shareholders
Interprovincial Steel and Pipe Corporation Ltd.

We have examined the balance sheet of Interprovincial Steel and Pipe Corporation Ltd. as at August 31, 1971 and the statements of earnings and retained earnings and source and application of funds for the year then ended, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at August 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. All the transactions of the company that have come to our notice have been within the objects and powers of the company.

Regina, Saskatchewan,
November 3, 1971.

RIDDELL, STEAD & CO.,
Chartered Accountants.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended August 31, 1971

	1971	1970
SOURCE OF FUNDS		
Operations		
Net earnings	$ 1,020,355	$ 1,763,480
Non-cash charges		
Depreciation	1,197,387	1,094,623
Provision for deferred income taxes	1,087,500	1,711,880
	3,305,242	4,569,983
Conversion of debentures and preference shares to common shares **Note 4**	355,082	.....
Long-term bank loan	750,000	1,020,000
	4,410,324	5,589,983
APPLICATION OF FUNDS		
Expenditures for fixed assets	1,908,078	2,509,697
Reduction of long-term debt		
Funds	1,282,284	1,124,927
Conversions to common shares	305,368	.....
Conversion of preference shares to common shares	49,714	.....
Dividends		
Preference shares	147,633	150,000
Common shares	432,580	285,872
	4,125,657	4,070,496
INCREASE IN WORKING CAPITAL	284,667	1,519,487
Working capital at beginning of year	7,271,693	5,752,206
WORKING CAPITAL AT END OF YEAR	$ 7,556,360	$ 7,271,693

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 1971

1. BANK INDEBTEDNESS

Bank loans, including long-term bank loans of $1,750,000, are secured by a general assignment of book debts and Section 88 of the Bank Act. In addition, the bank holds a floating charge on the assets of the company.

2. LONG-TERM DEBT

	1971	1970
First mortgage sinking fund bonds		
5½% Series A maturing December 1, 1973	$ 2,058,861	$ 2,842,853
6½% Series B maturing August 15, 1985	2,313,000	2,332,000
6⅛% Series C maturing August 15, 1985 (U.S. $1,250,000)	1,275,000	1,326,000
Debentures		
6% Convertible sinking fund maturing December 1, 1974	657,500	1,038,500
Bank loans	1,750,000	1,020,000
	8,054,361	8,559,353
Sinking fund and loan payments due within one year included in current maturity	1,163,100	830,440
	$ 6,891,261	$ 7,728,913

Estimated sinking fund and loan payments over the next five years, assuming no further debentures are converted to common shares, are as follows: Years ended August 31, 1972 — $1,163,100; 1973 — $1,223,700; 1974 — $1,387,000; 1975 — $907,700; 1976 — $207,800.

Sinking fund payments for the 6% convertible debentures are $150,000 per annum December 1, 1971 to 1973 and $450,000 on maturity. Under the provisions of the trust deeds, the company is permitted to satisfy the sinking fund payments due in whole or in part by applying credits established through conversion of debentures to common shares and by purchase of debentures. In accordance therewith, it is the company's intention to satisfy the payment due December 1, 1971 by applying credits of $150,000 from conversions during the past year. After application of this amount, there are additional credits available of $92,500 for future applications.

3. DEFERRED INCOME TAXES

In accordance with the 1969 recommendations of the Canadian Institute of Chartered Accountants, the company has provided for deferred income taxes of $1,087,500 on current earnings. These income taxes will not be currently payable as a result of claiming for income tax purposes depreciation in excess of the amounts recorded in the accounts. This accumulated amount is shown on the balance sheet as deferred income taxes. Similar tax reductions in the years prior to 1969, amounting to $6,339,000, have not been included.

4. CAPITAL STOCK

Changes in capital stock during the year ended August 31, 1971 were as follows:

	Common Shares		Preference Shares	
	Number	Consideration	Number	Consideration
Balance at beginning of year	2,858,730	$8,421,967	125,000	$2,662,500
Preference shares converted during the year on basis of three common shares for one preference share	7,002	49,714	(2,334)	(49,714)
Conversions during the year of 6% convertible sinking fund debentures at the rate of $6.30 per share	48,471	305,368	.....	.....
Balance at end of year	2,914,203	$8,777,049	122,666	$2,612,786

The following unissued common shares are reserved at August 31, 1971:

(a) Shares for possible issuance upon conversion of the 6% convertible sinking fund debentures at the rate of $6.30 to November 30, 1974 104,365

4. **CAPITAL STOCK (continued)**

(b) Shares for possible issuance upon conversion of the $1.20 cumulative redeemable convertible preference shares at the rate of three (3) common shares for one (1) preference share convertible at any time up to, but not after, October 1, 1972. These shares are redeemable at the option of the company at $22.55 per share 367,998

(c) Options granted to the Province of Saskatchewan at $5.00 per share exercisable up to December 1, 1973 60,000

Total number of shares reserved 532,363

5. **DIVIDEND RESTRICTIONS**

(a) The deed of trust and mortgage securing the first mortgage bonds restricts the payment of dividends on any class of the company's capital stock if the net working capital of the company is, or by reason of the payment of such dividend would be reduced to, less than $4,000,000 or, the shareholders' equity reduced to less than $12,000,000.

(b) The provisions attached to the preference shares restrict the payment of dividends on the common shares:

(i) if the preference dividends are in arrears

(ii) if the payment of such common share dividends would reduce the retained earnings below the amount of $9,811,009.

6. **COMMON SHARE DIVIDEND**

Subsequent to the fiscal year-end, a dividend of $.15 per common share outstanding has been declared payable November 1, 1971 to shareholders of record October 15, 1971.

ipsco

TOP LEFT

IPSCO's rolling mills operated at 46% of capacity last year. The combination of the 2-Hi slabbing mill and the 4-Hi finishing mill results in an exceptionally fine grain structure in the finished product. Controlled cooling of the finished strip contributes to improved notch-toughness properties in the steel.

TOP CENTER

The production of longitudinal weld pipe at IPSCO in sizes from 2 to 16 inch diameter is an important product line. As the coiled steel is fed into the mill it is progressively formed into a tube and the edges are welded together using the high frequency electric resistance welding process. The weld area is then normalized and pipes are cut to length.

TOP RIGHT

The rolling mills at IPSCO have a capacity in excess of 500,000 tons per annum. This has permitted a steady expansion to steel ingot capacity without additional investment in rolling equipment. The mills feature closed circuit T.V., X-Ray gauge control and Laminar Flow cooling. Controlled rolling together with close chemistry control using electric furnaces, results in the production of "IPSCO Fine Grain" steel.

DESCRIPTION OF BACK COVER PHOTOGRAPHS

BOTTOM LEFT

Pipeline construction represents a major market for IPSCO products. Each year additional products are moved by pipeline and research is continuing into further expansion to this method of transportation. IPSCO has a wide range of product to offer this market, from 2 to 80 inches in diameter. With the trend to large diameter pipelines, IPSCO is in an advantageous position to meet these requirements.

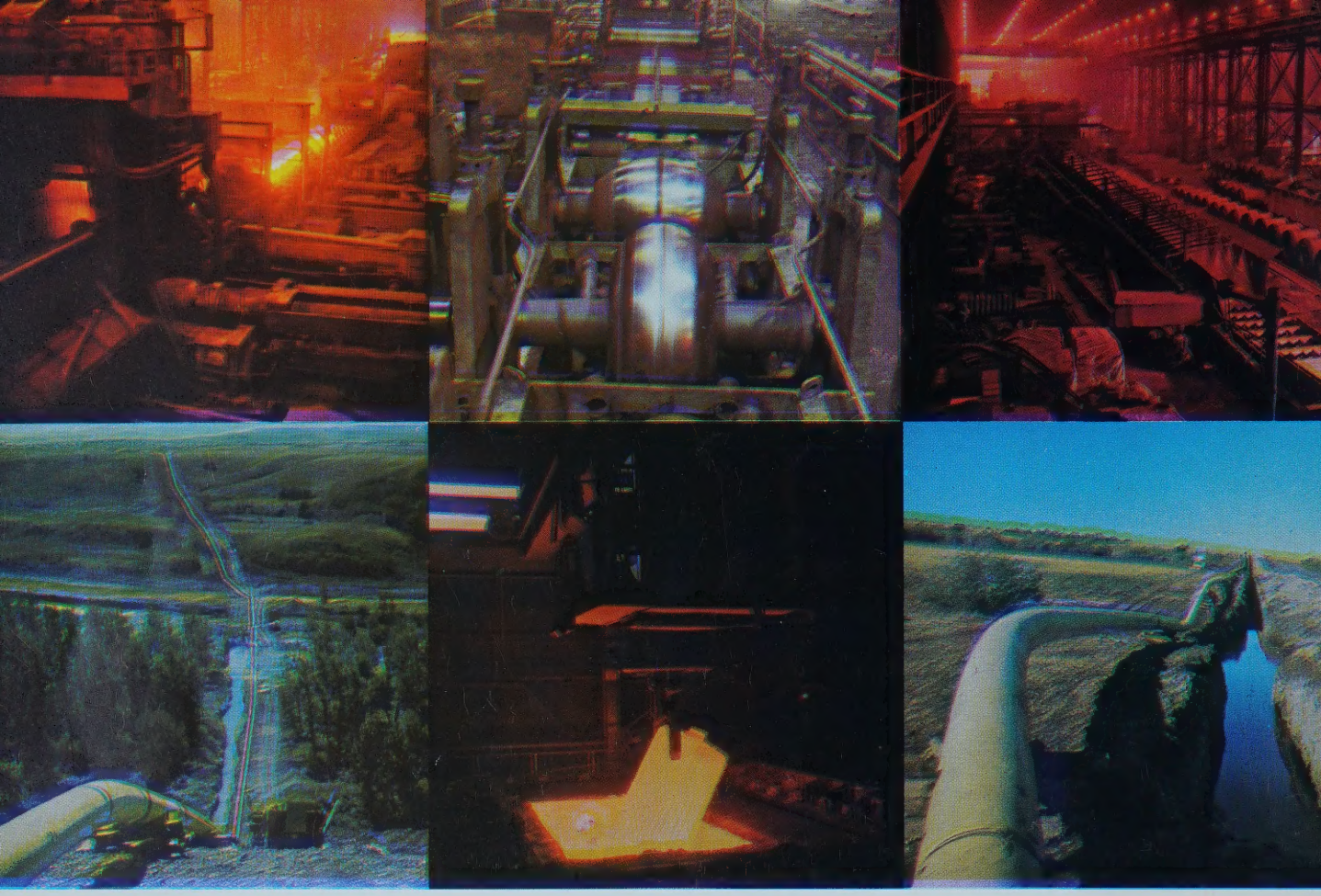
BOTTOM CENTER

Ingots must be heated evenly in a controlled temperature prior to rolling. This is accomplished in seven soaking pits, two of which were added last year. A control cubicle services the seven pits and contains all controls and instruments to maintain and record pit temperatures, natural gas and air flows for optimum soaking conditions.

BOTTOM RIGHT

IPSCO is advantageously located to service Western Canadian line pipe markets. The proposed construction of oil and gas transmission pipelines from the Arctic to markets in Eastern Canada and the United States will have a major portion of total mileage in IPSCO's primary market. The development of X-70 Grade pipe has been an important factor in broadening the market for IPSCO line pipe.

INTERPROVINCIAL
STEEL
AND
PIPE
CORPORATION
LTD.



ipsco

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

INTERIM FINANCIAL STATEMENT
(Unaudited)

	For the Six Months Sept. to Feb. 1972	1971
STATEMENT OF EARNINGS		
Sales	$21,699,761	$10,316,111
Earnings before providing for the undernoted expenditures	$ 4,009,684	$ 1,321,213
Interest on long-term debt	$ 177,518	$ 250,390
Other Interest	197,434	100,134
Directors' Fees	11,100	10,850
Depreciation	617,731	531,424
	$ 1,003,783	$ 944,798
Net earnings for the period before income taxes	$ 3,005,901	$ 376,415
Income Taxes — Current	1,144,000	.....
— Deferred	359,000	186,000
Net earnings for the period	$ 1,502,901	$ 190,415
(Earnings per common share: 1972, $.49; 1971, $.04)		
STATEMENT OF SOURCE AND APPLICATION OF FUNDS		
Source of Funds —		
From Operations:		
Net earnings	$ 1,502,901	$ 190,415
Non-cash charges		
Deferred income taxes	359,000	186,000
Depreciation	617,731	583,424
	$ 2,479,632	$ 959,839
Conversion of debentures	51,968	288,376
	$ 2,531,600	$ 1,248,215
Application of Funds —		
Expenditures for plant and equipment	$ 734,665	$ 901,079
Reduction in long-term debt	1,015,113	1,185,715
Dividend on preference shares	65,728	73,800
Dividend on common shares	437,961	432,580
	$ 2,253,467	$ 2,593,174
Increase (decrease) in working capital	$ 278,133	$(1,344,959)
Working capital at beginning of period	7,556,360	7,271,693
Working capital at end of period	$ 7,834,493	$ 5,926,734

INTERIM REPORT

For the six months
September 1 to February 29, 1972

← Statement of Earnings

President's Remarks →

Interprovincial Steel and Pipe Corporation Ltd.
Regina, Saskatchewan, Canada

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

TO THE SHAREHOLDERS:

Operations for the first six months of the current fiscal year to February 29, 1972 set records in all divisions, including sales, production and earnings. Net earnings for the six-month period amounted to $1,502,901 after depreciation and income taxes. This compares to net earnings of $190,415 for the comparable period of 1971. Net earnings per common share for the first half of the current fiscal year amounted to 49 cents as compared to four cents for the same period in 1971, after provision for dividends on preference shares.

The momentum established in the first quarter was maintained throughout the second quarter, with a capacity level of production in most operating departments. Ingot production for the first six months reached a record level of 142,058 tons, an increase of 28 percent over the comparable period in 1971.

Net sales for the first half of the current fiscal year amounted to $21,699,761, an increase of 110 percent over sales volume of $10,316,111 for the first half of 1971. This is the highest sales volume in the history of IPSCO for first-half operations.

EXPANSION PROGRAM

The melt shop is currently operating at a capacity level of 300,000 ingot tons per annum, following expansion completed last year. Although this level of production is double the capacity available in 1969, market growth requires that a further expansion commence this year. Engineering has been completed and equipment orders have been placed on the following major items:

— Primary Transformer & Sub-station — This will increase power supply to meet the requirements for operation of the new furnace, which requires ultra high power conditions.

— Fourth Electric Furnace — This furnace, which is a major technological advance in furnace design, will produce 300,000 ingot tons per annum, increasing steelmaking capacity from the current level of 300,000 tons to 600,000 tons per annum.

— Motor Generator Unit — This will permit simultaneous operation of both the slabbing and finishing mills, increasing rolling mill capacity from the current level of 500,000 tons to 850,000 tons per annum.

— Third Spiral Pipe Mill — This is a sister mill to the two existing mills and will increase large diameter pipe capacity from the current level of 90,000 tons to 135,000 tons per annum.

— Expansion to ERW line pipe and casing capacity through acquisition and installation of a 2" to 6" diameter heavy wall pipe mill. This will increase capacity in this size range by 75,000 tons per annum.

The above program, at an estimated capital cost of $5,000,000, will require eight months to complete. Based on the present schedule, all facilities should be installed and operational by November of 1972, with a minimum of interruption in existing production equipment. As previously reported, application was made last year to the Department of Regional Economic Expansion for an Incentive Grant covering the above expansion. An Incentive Grant was approved on April 7, 1972 in the amount of $885,800. The balance of the funds have been arranged by way of long-term financing.

FINANCIAL

The operations of IPSCO during the first half of the current fiscal year generated cash in the amount of $2,479,632; comprised of net profit of $1,502,901 and non-cash charges including deferred income taxes of $359,000 and depreciation of $617,731. During the same period of the previous year, cash generation amounted to $959,839.

During the first half of the current fiscal year, expenditures on plant and equipment totalled $734,665; long-term debt was reduced by $1,015,113; dividends on preference shares were paid in the amount of $65,728 and on common shares in the amount of $437,961. The total application of funds during the first half of the current fiscal year amounted to $2,253,467.

In addition to the $2,479,632 cash generated from operations during the first half of the current fiscal year, $51,968 resulted from conversion of IPSCO debentures for a total source of funds of $2,531,600. The differential as between source of funds and application of funds during the period, in the amount of $278,133, was added to working capital. The working capital as at February 29, 1972 amounted to $7,834,493, as compared to $5,926,734 as at February 28, 1971.

FUTURE OUTLOOK

The continuing expansion to steelmaking capacity at IPSCO will significantly affect the earnings potential of the Company. The increase in ingot capacity, from the current level of 300,000 tons per annum to 600,000 tons will be accomplished at a capital cost of approximately $3,000,000. This represents a capital cost of $10 per ton of increased ingot capacity, which is extremely low. The balance of the program, estimated at approximately $2,000,000 will provide additional rolling and pipe finishing capacity to utilize the increase in steel supply. The total investment in land, buildings and production equipment, as at February 29, 1972 amounted to $35,685,733, before depreciation. The $5,000,000 expansion program, equivalent to 14% of present fixed asset investment, will increase the production and sales volume capacity of IPSCO by 100%. The utilization of increased capacity over the next several years should reflect in substantial gains in earnings.

The balance of the current fiscal year will require a capacity level of operations to meet existing and forecast orders. Forecast pipeline construction for the balance of the current year, together with several major projects either announced or in the planning stages, indicates that 1973 pipeline activity will remain at a high level.

April 14, 1972. J. N. TURVEY,
President.